

Department of Labor
and Human Rights
BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2013

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

**LEGISLATIVE AUDIT AND FISCAL REVIEW
COMMITTEE MEMBERS**

***Representative Gary Kreidt – Chairman
Senator Ralph Kilzer – Vice Chairman***

Representatives

*Wesley R. Belter
Jeff Delzer
Ron Guggisberg
Patrick Hatlestad
Jerry Kelsh
Scot Kelsh
Keith Kempenich
Andrew G. Maragos
Bob Martinson
Corey Mock
Chet Pollert
Dan Ruby
Jim Schmidt
Robert J. Skarphol
Wayne Trottier*

Senators

*Judy Lee
David O'Connell
Terry M. Wanzek*

Contents

<i>Transmittal Letter</i>	<i>1</i>
<i>Executive Summary</i>	<i>2</i>
<i>Introduction</i>	<i>2</i>
<i>Responses to LAFRC Audit Questions</i>	<i>2</i>
<i>LAFRC Audit Communications</i>	<i>3</i>
<i>Audit Objectives, Scope, and Methodology</i>	<i>4</i>
<i>Discussion and Analysis</i>	<i>6</i>
<i>Financial Summary</i>	<i>6</i>
<i>Financial Statements</i>	<i>7</i>
<i>Statement of Revenues and Expenditures</i>	<i>7</i>
<i>Statement of Appropriations</i>	<i>8</i>
<i>Internal Control</i>	<i>9</i>
<i>Compliance With Legislative Intent</i>	<i>10</i>
<i>Operations</i>	<i>11</i>
<i>Management Letter (Informal Recommendations)</i>	<i>12</i>

STATE AUDITOR
ROBERT R. PETERSON



PHONE
(701) 328 - 2241
FAX
(701) 328 - 1406

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

June 11, 2014

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
Ms. Bonnie Storbakken, Commissioner

We are pleased to submit this audit of the Department of Labor and Human Rights for the biennium ended June 30, 2013. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Andrea Wike. Jackie Castleberry was the staff auditor. Cindi Pedersen, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Commissioner Storbakken and her staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The North Dakota Department of Labor and Human Rights is responsible for enforcing North Dakota labor and human rights laws and for educating the public about these laws. In addition, the department licenses employment agencies operating in the state and can verify the status of independent contractor relationships. The Department of Labor and Human Rights assists all North Dakota citizens, employees, employers, those purchasing or receiving services, and those providing services.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's responses are noted below.

Responses to LAFRC Audit Questions

1. What type of opinion was issued on the financial statements?

Financial statements were not prepared by the Department of Labor and Human Rights in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No.

5. Has action been taken on findings and recommendations included in prior audit reports?

There were no recommendations included in the prior audit report.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

Yes, a management letter was issued and is included on page 12 of this report, along with management's response.

LAFRC Audit Communications

7. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The Department of Labor and Human Rights' financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

14. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance and Human Resource Management System (HRMS) are high-risk information technology systems critical to the Department of Labor and Human Rights.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the Department of Labor and Human Rights for the biennium ended June 30, 2013 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Department of Labor and Human Rights' operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Department of Labor and Human Rights and are they in compliance with these laws?
3. Are there areas of the Department of Labor and Human Rights' operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the Department of Labor and Human Rights is for the biennium ended June 30, 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Department of Labor and Human Rights' sole location is its Bismarck office which was included in the audit scope.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.

- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Department of Labor and Human Rights' processes and procedures.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

Discussion and Analysis

The accompanying financial statements have been prepared to present the Department of Labor and Human Rights' revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2013, operations of the Department of Labor and Human Rights were primarily supported by appropriations from the state's general fund. This is supplemented by federal funding and fees credited to the agency's operating fund.

Financial Summary

Revenues consisted primarily of federal funds. Miscellaneous revenues during the audited period included various wage claims and copier fees. The revenue from the federal government significantly increased as a result of the agency receiving a partnership grant from the U.S. Department of Housing and Urban Development (HUD), which was used to create and broadcast new housing public service announcements. The other revenues remained fairly constant for the Department of Labor and Human Rights, decreasing only slightly. Total revenues were \$429,765 for the year ended June 30, 2013 as compared to \$154,389 for the year ended June 30, 2012.

Total expenditures for the Department of Labor and Human Rights were \$1,129,901 for the year ended June 30, 2013 as compared to \$914,469 for the prior year. The increase in total expenditures for the audited period reflects primarily salaries and benefits, operating fees and services and professional services. The increase in expenditures for salaries and benefits reflected the general salary increases. In operating fees and services and professional services, there were significant increases in artistic and design services and radio/television/newspaper services, which were a result of the partnership grant from HUD for the creation and airing of housing public service announcements. All other expenditures remained fairly constant.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
<u>Revenues:</u>		
Revenue from the Federal Government	\$ 429,535	\$ 134,200
Miscellaneous Revenue	230	20,189
Total Revenues	<u>\$ 429,765</u>	<u>\$ 154,389</u>
<u>Expenditures:</u>		
Salaries and Benefits	\$ 837,504	\$ 790,794
Operating Fees and Services	141,060	19,848
Professional Services	55,114	10,776
IT Services	29,974	40,568
Travel	22,987	27,140
Equipment	16,748	60
Supplies	15,750	16,974
Postage	10,764	8,309
Total Expenditures	<u>\$ 1,129,901</u>	<u>\$ 914,469</u>

Statement of Appropriations

For The Biennium Ended June 30, 2013

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 1,648,342		\$ 1,648,342	\$ 1,628,298	\$ 20,044
Operating Expenses	316,294	\$ 165,400	481,694	406,072	75,622
Technology Carryover		10,000	10,000	10,000	
Totals	<u>\$ 1,964,636</u>	<u>\$ 175,400</u>	<u>\$ 2,140,036</u>	<u>\$ 2,044,370</u>	<u>\$ 95,666</u>
Expenditures by Source:					
General Fund	\$ 1,540,125	\$ 10,000	\$ 1,550,125	\$ 1,480,616	\$ 69,509
Other Funds	424,511	165,400	589,911	563,754	26,157
Totals	<u>\$ 1,964,636</u>	<u>\$ 175,400</u>	<u>\$ 2,140,036</u>	<u>\$ 2,044,370</u>	<u>\$ 95,666</u>

Appropriation Adjustments:

The \$165,400 in the Operating Expenses line item was approved by the Emergency Commission to accept a partnership grant from the U.S. Department of Housing and Urban Development to provide education, awareness, and information relating to the state's fair housing laws.

The \$10,000 was approved by the carry over committee for the agency to complete work on the Labor Information Management Electronic System (LIMES).

Internal Control

In our audit for the biennium ended June 30, 2013, we identified the following areas of the Department of Labor and Human Rights' internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures, including purchase card, procurement, and travel transactions.
- Controls surrounding the processing of payroll.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the enforcement of labor standards and human rights laws.

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted one other matter involving internal control that we have reported to management of the Department of Labor and Human Rights in a management letter dated June 11, 2014.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2013, we identified and tested Department of Labor and Human Rights' compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Proper authorization of the agency's funds.
- Compliance with OMB's Purchasing Procedures Manual.
- Compliance with appropriation laws. (2011 North Dakota Session Laws chapter 33)
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping, annual inventory, and surplus property.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

Government Auditing Standards require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

Operations

This audit did not identify areas of Department of Labor and Human Rights' operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

Management Letter (Informal Recommendations)

June 11, 2014

Ms. Bonnie Storbakken
Commissioner
Department of Labor and Human Rights
600 E. Boulevard Avenue
Bismarck, ND 58505

Dear Ms. Storbakken:

We have performed an audit of the Department of Labor and Human Rights for the biennium ended June 30, 2013, and have issued a report thereon. As part of our audit, we gained an understanding of the Department of Labor and Human Rights' internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted a certain condition we did not consider reportable within the context of your audit report. This condition relates to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

INTERNAL CONTROLS

Informal Recommendation 13-1: We recommend the Department of Labor and Human Rights strengthen controls surrounding their approval of purchase card expenditures and reconciliation processes to ensure:

- Purchase cardholders are reconciling the receipts to the individual statements.
- Agency-wide purchase card statements are being reconciled by a non-cardholder.
- All purchase card expenditures are being approved by an individual with proper authority.

Management of the Department of Labor and Human Rights agreed with this recommendation.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

A handwritten signature in cursive script that reads "Andrea Wike".

Andrea Wike
Auditor in-charge

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
Division of State Audit

Office of the State Auditor
600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060

(701) 328-2241